

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC MONETARY COMMITTEE CONSIDERS PROPOSED SDR-GOLD
SUBSTITUTION ACCOUNT

REF: (A) EC BRUSSELS 9120 (B) BONN 17853

1. BEGIN SUMMARY: THE EC MONETARY COMMITTEE SHOWED LITTLE INTEREST
IN A BELGIAN PROPOSAL TO AMEND THE IMF ARTICLES TO CREATE AN SDR-
GOLD SUBSTITUTION ACCOUNT. MOST MEMBER STATES THROUGH THE
ACCOUNT WOULD NOT BE USED BECAUSE OF A LACK OF CENTRAL BANKS
INTEREST IN SUBSTITUTING THEIR GOLD ASSETS FOR SDRS. THE COMMITTEE
DID AGREE TO LOOK INTO THE ROLE
OF SDRS IN A REFORMED INTERNATIONAL MONETARY SYSTEM. OTHER
ITEMS DISCUSSED BY THE COMMITTEE ARE BEING REPORTED SEPTEL.
END SUMMARY.

2 AT ITS MEETING ON OCTOBER 30 THE EC MONETARY COMMITTEE CONSIDERED
A BELGIAN PROPOSAL THAT THE IMF ARTICLES OF AGREEMENT SHOULD BE
AMENDED TO INCLUDE AN ACCOUNT TO SUBSTITUTE GOLD FOR SDRS.
(THE IDEA OF THE ACCOUNT WOULD BE FOR CENTRAL BANKS TO OFFER GOLD
TO THE IMF AND RECEIVE SDRS AT A YET UNDETERMINED RATE OF
EXCHANGE.) THE ACCOUNT IS INTENDED TO REDUCE THE ROLE OF GOLD AND
RESERVE CURRENCIES IN A REFORMED

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MONETARY SYSTEM BY PROMOTING THE SDR AS THE PRIMARY RESERVE

INSTRUMENT.

3. THERE WAS LITTLE SUPPORT FOR THE PROPOSAL, HOWEVER, THE FRG AND DUTCH REPRESENTATIVES THOUGHT THE PROPOSED ACCOUNT WOULD BE USELESS. THEY ASKED IF ANY MEMBER STATES PLANNED TO EXCHANGE GOLD FOR SDRS. THERE WAS NO RESPONSE. THE FRENCH REPRESENTATIVE WANTED TO AVOID RAISING A NEW ISSUE AT THIS TIME BECAUSE IT MIGHT COMPLICATE NEGOTIATIONS TO REACH AN AGREEMENT ON PROPOSED IMF AMENDMENTS AT THE NEXT INTERIM COMMITTEE MEETING. BRITISH AND DANISH REPRESENTATIVES ALSO DOUBTED THE UTILITY OF THE PROPOSED ACCOUNT, BUT THEY REPORTEDLY DID NOT RULE OUT ITS CONSIDERATION.

4. THE BELGIAN REPRESENTATIVE THEN QUESTIONED THE INTENTIONS OF THE MEMBER STATES TO PROMOTE SDR AS A CREDIBLE AND VIABLE RESERVE ASSET. HE NOTED THAT THE ATTRACTIVENESS OF THE SDR AS A RESERVE ASSET WAS LIMITED FOR A NUMBER OF REASONS SUCH AS ITS LOW INTEREST RATE, RESTITUTION REQUIREMENTS AND RESTRICTIONS ON ITS USE. THESE LIMITS WOULD PREVENT THE SDR FROM REALIZING ITS INTENDED ROLE OF AT LEAST IN PART REPLACING OTHER MAJOR RESERVE ASSETS. THE BELGIAN REPRESENTATIVE THUS THOUGHT THE MEMBER STATES WERE CONTRADICTING THEMSELVES BY ON THE ONE HAND REJECTING PROPOSALS TO STRENGTHEN THE SDR AND ON THE OTHER BY CALLING FOR REDUCED ROLES FOR GOLD AND RESERVE CURRENCIES IN THE INTERNATIONAL MONETARY SYSTEM.

5. THE MONETARY COMMITTEE DECIDED TO TAKE UP THE ISSUE OF THE SDR ROLE AT ITS NEXT MEETING ON NOVEMBER 28. IT ASKED THE BELGIAN REPRESENTATIVE TO SUBMIT HIS VIEWS AT THAT TIME. THE MISSIONED OBTAINED A COPY OF THE BELGIAN PROPOSAL AND IS SENDING IT TO INTERESTED WASHINGTON AGENCIES, INCLUDING CLARK/STATE/RPE.

6. COMMENT: EC COMMISSION OFFICIALS AGREE THERE IS A CONTRADICTION IN THE EC'S APPROACH TO THE SDR. THEY HOLD LITTLE HOPE, HOWEVER, FOR ANY NEW PROPOSALS COMING OUT OF THE MONETARY COMMITTEE. THEY TEND TO AGREE WITH BELGIAN OFFICIALS THAT BECAUSE OF EXISTING RESTRICTIONS THE SDR IS NOT AN ATTRACTIVE RESERVE ASSET. THESE OFFICIALS CONSEQUENTLY BELIEVE THE SDR IS NOT LIKELY TO PLAY AN IMPORTANT ROLE IN A REFORMED MONETARY LIMITED OFFICIAL USE

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SYSTEM UNLESS STEPS ARE TAKEN TO EXPAND ITS USE. END COMMENT.
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Message Attributes

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